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DDI- 05111/85/1

13 DEC 1985

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: Robert M. Gates
Deputy Director for Intelligence

SUBJECT: Audit of Directorate of Intelligence (DI)
1 November 1982 - 31 March 1985

REFERENCE: Your memo dated 8 October 1985, same subject.

1. At the outset I want to thank those members of your staff who conducted this year's audit of the Directorate for the courtesy and understanding they showed in ensuring minimal disruption to ongoing activities while conducting their audit. I would also like to express the Directorate's appreciation for the ideas they suggested to improve our administrative functions, including several which while not mentioned in the final audit report, we have nevertheless initiated. The specific recommendations contained in the report have been implemented as noted below.

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2. Recommendation #1: Maintain property controls and records in accordance with regulations. This recommendation identified the Office of Current Production and Analytic Support (CPAS) as needing to improve its administrative property controls and records and specifically mentioned the need to more fully document and record property transactions/acquisitions. A complete inventory of all property holdings was conducted after the audit during which all CPAS property was properly identified, fully recorded and documented. The property records of CPAS are now in full compliance with Agency regulations. Equally important, just prior to the audit, CPAS, recognizing the importance, complexity and volume of its property holdings, requested that the Office of Logistics assign a professional logistician to the CPAS Executive Staff to assure continued regulatory compliance and timely logistical support. This has now been accomplished.

3. Recommendation #2: Review record keeping procedures and internal controls for publications procurement to identify and resolve reasons for duplicate payments and overpayments to vendors. This recommendation addresses our $4.5 million annual publications procurement effort managed by the Acquisitions Branch in the Office of Central Reference. The audit report, while noting your staff had insufficient time and resources to identify specific problem areas, did alert us to approximately $15,000 in refunds to the Agency from vendors of duplicate payments or overpayments. As you suggested, OCR has conducted a review of the publications procurement process.

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It has determined that the weakness of the process lies in part in its reliance on manual, paper- dependent practices; these, coupled with high volume activity (upwards of 1,000 individual payments per month) do not allow for as efficient and effective control and follow up as desired. As was discussed during the audit, OCR has concluded the answer rests with automation. OCR is developing a much improved automated system for the acquisitions effort, including the tracking of publications orders and receipts, as well as the payment of invoices. The projected implementation date is early 1987. In the interim, internal manual procedures and follow ups have been strengthened and minor accounting practices initiated which will help to preclude problems such as surfaced in your audit. As a final point, we should note that OCR is establishing an additional position within its administrative element to concentrate on financial activities--another step designed to ensure proper control and follow up.

4. Recommendation #3: Maintain Government Furnished Property records in accordance with prescribed procedures. Recommendation #4: Impress upon contractors the requirement for submitting the annual inventory. Our investigation of the events which led to recommendations #3 and #4 showed that the failure to maintain adequate records and conduct prompt reporting of government property furnished Agency contractors were directly attributable to a failure to fill a contract support assistant's position in the DI Contracts Group for a period of seven months. While this position was vacant, its functions reverted to the Group's contract negotiators, but additional understaffing there precluded these officers from attending to such administrative matters as government furnished property (GFE). Fortunately, the contract assistant's position now has been filled and the current incumbent has "worked off" the backlog, including GFE administrative responsibilities. Our 1985 Report of Government Property Held by Contractors has been filed with the Director of Logistics and includes all property transactions since 1983. Equally important, an additional contract negotiator's position has been established and filled in the Contracts Group to assist in carrying the greater work load that has resulted from the Directorate's increasingly aggressive use of external contractors.

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Robert M. Gates

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Distribution:
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DI/MPS/SSC [redacted] 13Dec85 25X1

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)
Audit of Directorate of Intelligence (DI),
1 November 1982 - 31 March 1985

FROM:	EXTENSION	NO.
Audit Staff 1201 Key		DDI- 05111/85
		DATE 8 October 1985

TO: (Officer designation, room number, and building)	DATE RECEIVED	DATE FORWARDED	OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
1. 1G 6 E 18 HQS		10/10		
2.				
3. ~~DDI 7E47 HQS~~				
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FORM 1-79 **610** USE PREVIOUS EDITIONS

GPO : 1983 O - 411-632

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DDI 05111/85

8 October 1985

MEMORANDUM FOR: Deputy Director for Intelligence

VIA: Inspector General

FROM: [redacted] 25X1
Chief, Audit Staff

SUBJECT: Audit of Directorate of Intelligence (DI), 1 November 1982 - 31 March 1985

1. Subject report is attached for your review. Please advise me of action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance extended by DI personnel during the audit.

[redacted] 25X1

Attachment:
As stated

Distribution:
Orig. - Addressee
1 - O/Compt/BMG
1 - D/OF
1 - D/OL

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REPORT OF AUDIT
Directorate of Intelligence

For the Period
1 November 1982 - 31 March 1985

SUMMARY

1. During the audit period, internal controls and procedures for the custody and use of Agency resources were generally effective and in compliance with applicable regulations and directives. This report contains recommendations concerning maintenance of administrative property records and Government Furnished Property records as prescribed by regulations, and identification of weaknesses causing erroneous payments to vendors for procurement of publications. Other administrative problems were discussed with responsible officers and resolved during the audit.

SCOPE

2. The audit included a review of administrative functions, including those pertaining to contracting, to evaluate the effectiveness of internal controls and procedures and to ensure compliance with Agency regulations and other pertinent directives. Financial and logistical transactions were reviewed to determine whether documentation, including approvals and certifications, was in accordance with applicable regulations; to ensure that obligations and expenditures were within the scope of approved activities; and to verify the accuracy of financial and property accounts. All Directorate of Intelligence (DI) components except the Office of Imagery Analysis (OIA) were audited; OIA will be audited at a later date.

GENERAL

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DETAILED COMMENTS

Administrative Property

4. The Office of Current Production and Analytic Support needs to improve administrative property controls and records. The office has not documented numerous property transactions, including acquisitions, in the file of sequentially numbered documents supporting changes in property accountability, and also has not sequentially numbered many of the documents that do support changes. Consequently, we could not confirm the accuracy of all accountability records since they do not reflect acquisitions, estimated to be in excess of $300,000, and other transactions. Documenting and numbering transactions is required to provide an audit trail that supports proper control and use of accountable property. During the audit the office started an inventory to resolve discrepancies, and to update accountable records. They also agreed to properly document future property transactions, and to improve property controls and records as required by HHB 45-2.

> Recommendation #1: Maintain property controls and records in accordance with regulations.

Publications Procurement

5. The record keeping procedures and internal controls for publications procurement should be reviewed to identify and resolve reasons for duplicate payments and overpayments to vendors. The Acquisitions Branch of the Office of Central Reference uses five imprest fund/bank accounts to procure about $4.5 million annually in publications to satisfy Agency requirements. According to custodian records, during a recent 18-month period vendors refunded duplicate payments and over-payments of approximately $15,000.

6. It was not feasible to ascertain the magnitude of erroneous payments, but those known to have occurred appear sufficient to warrant an appraisal of administrative functions. The audit did not identify specific problem areas because of resource and time constraints. Several DI officers stated that they intend to review the automated system used in this procurement process for needed modifications. The review should also include an appropriate appraisal of other administrative areas, such as invoice validation and payment procedures, to identify and resolve any problems that could be contributing to erroneous payments.

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Recommendation #2: Review record keeping procedures and internal controls for publications procurement to identify and resolve reasons for duplicate payments and overpayments to vendors.

Government Furnished Property

7. Improved record keeping and follow-up procedures are needed to better control Government Furnished Property (GFP) in the possession of contractors. The manual for the administration of GFP in possession of Agency contractors requires that each contractor who has been issued GFP submit an annual inventory, including dollar values, to the contracting officer (CO) as of 30 September each year. These reports are consolidated by Procurement Management Staff and forwarded to the Director of Finance for inclusion in the Agency's financial records.

8. We examined the documentation supporting FY 1983 and FY 1984 GFP reports to determine compliance with the established GFP inventory procedures and the accuracy of the report.

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9. Although DI contracting officers are aware of their responsibilities in this area, they have not given high priority to this problem because of other pressing activities. While similar condition exist in other Agency procurement elements, GFP records should be strengthened and established procedures should be followed to provide control over this property. The CONIF GFP list needs to be adjusted to accurately reflect the contracts charged with GFP. All contractors on the CONIF GFP report at 30 September should be required to submit annual inventory reports.

Recommendation #3: Maintain GFP records in accordance with prescribed procedures.

Recommendation #4: Impress upon contractors the requirement for submitting the annual inventory.

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